

**BOARD OF INVESTMENT TRUSTEES
MONTGOMERY COUNTY EMPLOYEE RETIREMENT PLANS**

MINUTES – OPEN SESSION

September 9, 2005

Bethesda North Marriott Hotel and Conference Center
5701 Marinelli Road
North Bethesda, Maryland

Board Members Present:

Stephen Farber, Chair
Art Spengler
Gino Renne
Sandra Kaiser
Walter Bader
Cora Ingram
Mark Barnard
Kelda Simpson
Tim Firestine
Joe Adler
Beverley Swaim-Staley
Sharon Cayelli
Jeff Buddle

Staff:

Linda Herman
Daniel Weiss
Joanne Tsai

Others Present:

Mark Brubaker, Wilshire Associates
Amy Moskowitz, General Counsel to the Board

CALL TO ORDER

Mr. Farber called the open session of the Board to order at 1:30 p.m.

APPROVAL OF MINUTES

The Board unanimously approved the minutes of the June 3, 2005 open session, as amended.

FUND PERFORMANCE REVIEW AND INVESTMENT OUTLOOK

Mr. Brubaker presented Wilshire's performance analysis of the Employees' Retirement System as of June 30, 2005 and noted the total fund performance continued to be ranked in the top tier of Wilshire's Public Fund Universe. The ERS performance for the one year ended June 30 ranked in the top quartile or better than 75% of the public funds surveyed. He noted the three year performance ranks at the 14th percentile or better than 86% of peers. The Board reviewed the performance results of the funds offered in the Retirement Savings Plan and Deferred Compensation Plan.

INVESTMENT COMMITTEE REPORT

Mr. Barnard presented to the Board the report on the Investment Committee meeting.

ERS Rebalancing Resolution: The Board reaffirmed the special resolution to rebalance the ERS assets between managers and sectors as outlined in the resolution and attachment.

ERS – FY06 Cashflow Forecast: Ms. Herman presented the cash flow projections for FY06 reflecting monthly sources of cash and projected benefit payments. Based on the cash flow projections, the amount of cash needed to fund benefit payments in 2006 is \$42 million. Staff recommended that the Board continue to fund the monthly cash shortage through the use of the BGI Index Funds. After discussion, the Board approved the following resolution:

0509-02 Resolved, That the Board approves transferring cash required to fund benefit payments on a monthly basis, as presented, from the BGI Index Funds while maintaining the current asset allocation targets established by the Board.

Northern Trust Securities Lending Program: Ms. Herman discussed the securities lending program with Northern Trust and the types of cash collateral investment options offered. Staff recommended the Board consider moving from the Core USA Cash Collateral Fund to Global Core Cash Collateral Fund to allow our securities increased exposure to borrowers, the opportunity to have additional securities out on loan and better matching of the currencies to our international securities. The Board approved the following resolution:

0509-03 Resolved, That the Board approve the use of Northern Trust's Global Core Cash Collateral Fund for the investment of cash collateral.

Annual Review - Domestic Equity Managers: Ms. Herman noted that Staff prepares a quarterly review of each investment sector including highlights of benchmark variances, portfolio structure, operational and management issues at each firm, and performance attribution. The overall domestic equity composite has had higher returns but at a slightly higher risk than the benchmark over the past year. An examination of the correlation of excess returns showed good overall diversification among managers and long-term performance continues to be very positive.

ADMINISTRATIVE COMMITTEE REPORT

Mr. Firestine presented to the Board the report of Administrative Committee activities.

Quarterly Review - Budget versus Actual Expenses – 6/30/05: Mr. Firestine reviewed the budget versus actual expenses for the plans as of June 30, 2005. Ms. Herman updated the Board on the planned timeframe of the office modification and move of the Board's office to the Executive Office Building.

Reallocation of FY 06 Budget: Ms. Herman discussed the costs associated with the move to the EOB including additional expenses for electrical, security and other construction related costs. After discussion, the Board approved the following resolution:

0509-04 ***Resolved, That the Board approves the additional expenses related to the Board's office moving to the EOB, and an allocation adjustment from Professional Services (temporary services) of \$5,000, to Office Management, with no increase in the FY 06 budget previously approved by the Board. The remaining \$1,000 in moving expenses will be shifted from other categories in the Office Management budget.***

Due Diligence/Continuing Education Quarterly Report: Mr. Firestine presented the quarterly update of due diligence and continuing education expenses for the period ending June 30, 2005, noting there was one request for travel during the next quarter.

Annual Review – All Contracts: Ms. Herman presented the annual review of Board contracts noting the Wilshire contract will expire in June 2006 and a formal Request for Proposal for consulting services will be conducted in early 2006. She noted the high turnover of administrative staff at Northern Trust during the past year which resulted in a slower response time in resolving issues. The Board approved the following resolution:

0509-05 ***Resolved, That the Board approves amending the Northern Trust contract to include maintenance of a required level of service and administrative staff support.***

Quarterly Update – Legislation: Ms. Moskowitz updated the Board on enacted and pending legislation related to retirement plans and the Securities and Exchange Commission's report on pension consulting arrangements. In addition, Ms. Moskowitz discussed the Uniform Management of Public Employee Retirement Systems Act (UMPERSA) and noted how the act would affect the Employees' Retirement System and the Retirement Savings Plan. After discussion, the Board approved the following resolution:

0509-06 ***Resolved, That the Board approves amending the Wilshire Associates contract to include full disclosure of: all relationships with money managers, any payments from money managers, policies and procedures to address conflicts of interest, and arrangements with broker-dealers which result in a financial benefit to the firm.***

2006 Meeting Schedule: The Board approved the following resolution:

0509-07 ***Resolved, That the Board approves the 2006 meeting schedule as presented.***

GFOA – Certificate of Achievement for Excellence in Financial Reporting: Ms. Herman informed the Committee that the Board's 2004 Comprehensive Annual Financial Report (CAFR) received GFOA's award for Excellence in Financial Reporting achieving the highest standards in government accounting and financial reporting.

The Board discussed items on the workplan recommending no changes.

Election of Officers: Mr. Farber informed the Board of the slate of officers proposed by the Nominating Committee. The Board unanimously adopted the following resolution:

0509-08 *Resolved,* That the Board approves the following slate of officers pursuant to the Board bylaws.

Board Chair: Mr. Firestine

Board Vice-chair: Ms. Cayelli

Board Secretary: Mr. Renne

Investment Committee Chair: Mr. Barnard

Administrative Committee Chair: Ms. Kaiser

There being no further business of the Board, the open meeting session was adjourned at 2:00 p.m.

Respectfully submitted,

Gino Renne, Secretary